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# Department of Defense DIRECTIVE

**AD-A272 521**



July 1, 1988  
NUMBER 7410.4

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ASD(C)

SUBJECT: Industrial Fund Policy

- References:
- (a) DoD Directive 7410.4, "Industrial Fund Operations," April 16, 1982 (hereby canceled)
  - (b) Title 10, United States Code, Section 2208
  - (c) DoD 7110.1-M, "Department of Defense Budget Guidance Manual," July 1985, authorized by DoD Instruction 7110.1, October 30, 1980
  - (d) DoD 7220.9-M, "Department of Defense Accounting Manual," October 1983, authorized by DoD Instruction 7220.9, October 22, 1981
  - (e) through (g), see enclosure 1

## A. REISSUANCE AND PURPOSE

This Directive reissues and updates reference (a) to establish industrial fund policies and responsibilities. It implements the provisions of reference (b) that authorize the Secretary of Defense to establish working capital funds in the Department of Defense to provide working capital for industrial- and commercial-type activities that provide common services within or among the DoD Components.

## B. APPLICABILITY

This Directive applies to the Office of the Secretary of Defense (OSD), the Military Departments, and the Defense Agencies (hereafter referred to collectively as "DoD Components").

## C. POLICY

1. Under the authority of reference (b), the following working capital funds (hereafter called "industrial funds") have been established:

Fund	Treasury Account Symbol
Navy Industrial Fund	17X4912
Marine Corps Industrial Fund	17X4914
Army Industrial Fund	21X4992
Air Force Industrial Fund	57X4922
Defense Industrial Fund	97X4962

2. Individual activities may be chartered under a specific DoD Component industrial fund to achieve the objectives contained in enclosure 2. A charter shall be prepared in accordance with enclosure 3 and submitted to the Assistant Secretary of Defense (Comptroller) (ASD(C)) for approval. Before charter preparation, DoD Components shall ensure that the proposed industrial fund activity meets the following criteria:

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a. The installation is an industrial-type or commercial-type activity engaged in producing goods or providing services that are common to requirements of more than one Department or Agency, or ordering activity.

b. A "buyer-seller" or a "contractual" relationship between an industrial-type or commercial-type activity and those activities that require and order end-products or services from it either exists or will be created within a reasonable time period.

c. Additional requirements may be imposed, as necessary, for charter-approval of the specific activity or activities by the ASD(C).

3. Policy applicable to industrial fund financing is contained in enclosure 4.

4. Policy applicable to the management and administration of activities chartered to operate as industrial funds is contained in enclosure 5.

#### D. RESPONSIBILITIES

1. The Assistant Secretary of Defense (Comptroller) (ASD(C)) shall:

a. Authorize or approve specific activities to be financed by industrial funds and the terms under which such activities shall be operated.

b. Rescind the authorization of specific industrial fund activities that are deemed to no longer meet industrial fund criteria or that may be operated more efficiently under other financing.

c. Issue all necessary budget preparation, accounting, and reporting instructions. Applicable instructions are contained in DoD 7110.1-M (reference (c)) and DoD 7220.9-M (reference (d)).

2. The Secretaries of the Military Departments and the Directors of Defense Agencies, or their designees, who have activities financed under an industrial fund shall:

a. Comply with the policies prescribed herein.

b. Designate a management agency or command to be responsible for effective management of each industrial fund activity.

c. Submit applications to authorize new industrial fund activities or to rescind the authorization of existing industrial fund activities to the ASD(C).

3. The Management Agency or Command assigned responsibility for industrial fund management shall:

a. Provide appropriated funds for the costs of maintaining unutilized or underutilized plant and facilities at industrial fund activities.

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b. Assign responsibility and authority to designated officials for managing and operating the industrial fund and industrial fund activities.

4. The Management of Each Industrial Fund Activity shall:

a. Incur obligations and costs as necessary and allowable to perform the activity mission.

b. Control performance costs in line with customers' orders or approved price schedules.

E. INFORMATION REQUIREMENTS

Section 2208 of Title 10, U.S.C. (reference (b)) requires Heads of DoD Components to submit annual reports of the financial condition and operations of working capital funds to the President and Congress. Instructions for submitting reports are contained in DoD 7220.9-M (reference (d)).

F. EFFECTIVE DATE AND IMPLEMENTATION

This Directive is effective immediately and is mandatory for use by all DoD Components. Heads of DoD Components may issue supplementary instructions when necessary to provide for unique requirements within their respective Components. Upon issuance, a copy of such supplementary instructions shall be provided to the Deputy Assistant Secretary of Defense (Management Systems) (DASD(MS)), Office of the Assistant Secretary of Defense (Comptroller)(OASD(C)).

*William H. Taft, IV*

William H. Taft, IV  
Deputy Secretary of Defense

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Enclosures - 5

1. References
2. Objectives of Industrial Funds
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5. Management and Administration of Industrial Funds

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REFERENCES, continued

- (e) DoD Directive 4270.24, "Unspecified Minor Construction, Emergency Construction, and Restoration or Replacement of Damaged or Destroyed Facilities," March 21, 1983
- (f) DoD Directive 4175.1, "Sale of Government-Furnished Equipment or Materiel and Services to U.S. Companies," February 18, 1987
- (g) DoD Directive 4275.5, "Acquisition and Management of Industrial Resources," October 6, 1980

OBJECTIVES OF INDUSTRIAL FUNDS

A. Industrial funds are designed to:

1. Provide a more effective means for controlling the costs of goods and services required to be produced or furnished by industrial- and commercial-type activities, and a more effective and flexible means for financing, budgeting, and accounting for the costs thereof.
2. Create and recognize contractual relationships between industrial- and commercial-type activities and those activities that budget for and order the end-products or services to provide management advantages and incentives for efficiency.
3. Provide the financial authority and flexibility required to procure and use manpower, materials, and other resources effectively to managers of industrial- and commercial-type activities.
4. Encourage more cross-servicing among the DoD Components and among their operating Agencies, with the aim of obtaining more economical use of facilities.
5. Facilitate budgeting for and reporting of the costs of end-products. This will underline the cost consequences of choosing between alternatives.

B. Specific objectives, when industrial funds are used, include the following:

1. Furnish managers of industrial- and commercial-type activities with modern management tools comparable to those utilized by efficient private enterprises engaged in similar activities.
2. Improve cost estimating and cost control by using the constraints of a formal contractual relationship and the requirement for comparing estimates and actual costs.
3. Obtain alert, forward-looking financial planning at industrial- and commercial-type activities by making them financially dependent on reimbursements received for goods and services furnished in fulfilling orders from customers.
4. Encourage producers of goods and services to coordinate labor forces and inventories with workload, budgeting, and cost control.
5. Instill in the officials of ordering Agencies a greater sense of responsibility and self-restraint in limiting their orders and in balancing the cost of specific goods and services to be ordered against the benefits and advantages of their procurement, especially in the light of alternative or competing demands.
6. Place ordering Agencies in the position of critic of purchase prices (that is, costs of performing activities) as well as quality and delivery-speed of the goods and services ordered.

OBJECTIVES OF INDUSTRIAL FUNDS, continued

7. Enable ordering Agencies to budget and account on an "end-product" basis (the same as when buying from commercial contractors), simplifying budget presentations, budgetary control, and accounting procedures for both producers and ordering agencies.

8. Establish, whenever feasible, stabilized rates and unit prices for goods and services furnished by industrial fund activities, thus enabling ordering Agencies to plan and budget more confidently.

9. Encourage ordering Agencies' management to improve program planning and scheduling in response to producers' efforts to plan and negotiate for orders as far in advance as feasible.

## INDUSTRIAL FUND CHARTERS

### A. GENERAL

Prior to the financing of an activity under an industrial fund, a charter shall be signed by the Secretary or Assistant Secretary of the Military Department or by the Director of a Defense Agency, as appropriate, and submitted to the ASD(C) for approval. The charter shall govern such operations and shall be prepared pursuant to this Directive. Amendments to charters, including cancellations, may be proposed by DoD Components, subject to the same requirements for submission and approval as the charter.

### B. CHARTER CONTENTS

Each industrial fund charter shall include the following as a minimum:

1. Name and location of the activity or activities to be operated under the charter.
2. Designation of the operating Agency within the Department directly responsible for management of the activity or activities.
3. The amount of working capital approved to establish each activity included within the charter including the amount, if any, of the original industrial fund appropriation included within the approved working capital.
4. Brief description of the functions of the activity or activities and nature of its products or services including any activity not of an industrial-commercial nature but included within the industrial fund under enclosure 5, section B., of this Directive.
5. Statement of any specific exceptions to this Directive.

### C. CHARTER SUPPORT

Supporting documentation for charter applications shall include:

1. Complete explanation of how the proposed industrial fund activity meets the minimum criteria listed in section C. of this Directive and any additional requirements of the ASD(C) for the specific activity or activities.
2. Complete justification of estimated working capital requirements including explanation of factors or basis upon which calculated.
3. Pro forma financial statements for, as a minimum, a complete fiscal year.
4. Detailed requirements for the Fund Balance With The Treasury account supported by cash flow analysis.
5. Information concerning the expected volume of business, by type and character, and the source of reimbursements by customer agency and appropriation, or other source, during the current and ensuing fiscal years. This shall include:

## INDUSTRIAL FUND CHARTERS, continued

a. Designation of the Agencies that are the customers for the various products and services of the activity, and the sources of reimbursement expected from them distinguished, as a minimum, among the various classes of industrial-type end-items and services, as well as the underutilized and unutilized industrial capacity and other support costs.

b. The effect on consumer-appropriation budgets in cases in which current-year, consumer-appropriation budgets or budget estimates provide for financing of some costs of the activity in a manner other than the industrial fund. A statement of the budgetary adjustments or interim funding procedures being proposed as a result of the charter application should also be provided.

6. Information concerning the amount of working capital necessary for the activity or activities taking into consideration the following:

a. The requirement for initial investment in materials and supplies inventories.

b. The initial liabilities assumed that require cash.

c. The fund requirement of an activity to cover estimated costs to be incurred for operations or capital assets before the time that reimbursements may be obtained.

7. Explanation of goods or services proposed to be furnished outside the Department of Defense.

8. Explanatory statement regarding other Agencies within the Department of Defense authorized to provide services to the industrial fund activity together with description of such services and provision for reimbursement.

9. Justification of any exception to the provisions of this Directive.

### D. AMENDMENT OR CANCELLATION OF CHARTERS

Existing charters shall be canceled or amended upon approval by the ASD(C). Requests for cancellations or amendments must be supported by the following information:

1. Complete justification for the proposed action that may consist of copies of supporting evaluations or studies.

2. Information as to the disposition of assets and liquidation of liabilities.

### E. ANNUAL CHARTER REVIEW

DoD Components shall review industrial fund operations each fiscal year, independently of the management command or Agency, to ensure that charters and the supplemental provisions are current. The results of this evaluation shall be submitted to the ASD(C) not later than 90 days after the close of the fiscal year.



## FINANCING OF INDUSTRIAL FUND ACTIVITIES

### A. GENERAL

Financing of industrial fund activities is identified to one of three primary resources. The three resources are industrial fund operating resources, Asset Capitalization Program (ACP) resources, and appropriated fund resources. Industrial fund operating resources and ACP resources consist of all budgetary resources available to the industrial fund and are maintained through reimbursement for work or services provided in response to customer orders received and accepted. Appropriated fund resources are provided for those specific purposes listed in section D. of this enclosure.

### B. INDUSTRIAL FUND OPERATING RESOURCES

Industrial fund operating resources consist of all resources available for operations of the industrial fund, except those identified specifically for other purposes such as the ACP. Operating resources, as a general rule, shall be used to finance expenses of the period including maintenance and repair expenses that do not meet the capitalization criteria stated in chapter 36 of DoD 7220.9-M (reference (d)). Maintenance and repair of real and personal property have the effect of keeping the property in its customary state of operating efficiency without the expectation of added future benefits, such as extending the service life. However, real or personal property repairs costing over the amount specified in DoD Directive 4270.24 (reference (e)) as the maximum amount for a minor construction project shall be financed from appropriated funds made available for this purpose. Industrial fund operating resources may also be used to initially finance an asset acquisition or modification that must be financed from customer funds, provided the customer order is charged for the asset acquisition or modification, and the appropriation or fund cited in the order is appropriate and available for this purpose.

### C. ASSET CAPITALIZATION PROGRAM RESOURCES

1. General. The purpose of the ACP is to modernize and otherwise improve industrial fund activities, functions, and equipment items not excluded under the provisions of section D. of this enclosure. Financing is provided through an ASD(C)-approved billing surcharge and through reimbursement of depreciation expense. Stabilized rates and prices shall be established to provide sufficient working capital for acquisition of fixed assets and for such other factors as may be approved by the ASD(C). Working capital for ACP purchases is provided by an approved ASD(C) surcharge to billing rates and prices, if needed, in addition to depreciation expense recovery on existing assets.

2. Program Purposes. ACPs may be established for any purpose approved by the ASD(C). Common purposes for which programs may be established are identified in paragraphs C.2.a. through c., below.

a. Capital Equipment. Equipment that meets the DoD capitalization criteria and that is necessary for industrial fund activity operations shall be budgeted as an ACP purchase. Transportation, installation, and other

## FINANCING OF INDUSTRIAL FUND ACTIVITIES, continued

related costs of obtaining and placing the property in use shall be included as a cost of the ACP purchase.

b. Management Systems Development. Industrial fund management systems development is defined as project efforts that shall result in a new or changed managerial process having only incidental benefit to direct mission work performed by the activity. Management systems development projects, to be a proper charge to the industrial fund, must be independently established and authorized by industrial fund management as an individual activity project or a joint project among multiple industrial fund activities, and be necessary for reasonable operation and management of the industrial fund activity(ies). Requirements for preliminary planning, exploration, or research before final approval of a project shall be financed from industrial fund operating resources. Computer software (programs, routines, and subroutines) and other management system efforts that meet the DoD capitalization criteria shall be financed with ACP resources. Projects that do not meet the DoD capitalization criteria shall be financed with industrial fund operating resources.

c. Minor Real Property Construction. A construction project includes all work and costs necessary to construct or improve a complete and usable building, structure, or other real property. Only funds made available under military construction appropriations shall be used to accomplish unspecified minor construction projects. There is an exception for projects for which approved costs are below the threshold specified in DoD Directive 4270.24 (reference (e)) as the maximum to be financed by appropriations available for operation and maintenance. These projects shall be financed by the industrial fund as an ACP purchase with the following exclusions:

- (1) A minor construction project to meet mobilization requirements when no, or limited, peacetime application exists.
- (2) A major range and test facilities project.
- (3) A minor construction project for a tenant activity, military support function, or other activity as may be designated by the ASD(C) even though such activity and/or function utilizes the industrial fund financial system.
- (4) Any other exclusion as may be approved by the ASD(C).

### D. APPROPRIATED FUND RESOURCES

The following must be financed with funds appropriated by annual appropriation acts rather than by funds contained in the industrial fund itself:

#### 1. General

a. Management systems development projects not meeting the criteria in paragraph C.2.b., above.

FINANCING OF INDUSTRIAL FUND ACTIVITIES, continued

b. Any activities, functions, equipment, or construction classifications excluded by the ASD(C).

2. Activities

a. Items that meet the DoD capitalization criteria for use by the Airlift Service Industrial Fund.

b. Items that meet the DoD capitalization criteria for use by major ranges and test facility bases operating under a DoD Component industrial fund.

3. Functions

a. Military personnel services.

b. Military support functions and tenant support functions.

4. Equipment

a. Aircraft, ships, barges, and general-purpose passenger-type vehicles.

b. Equipment to meet mobilization requirements when no, or limited, peacetime application exists.

c. Equipment initially procured and usually furnished by the weapon system manager as part of a weapon system and/or support system.

d. Equipment normally provided as Government-furnished equipment (GFE).

5. Construction

a. Construction projects costing more than the amount specified in DoD Directive 4270.24 (reference (e)) as the maximum amount to be financed by appropriations available for operation and maintenance (e.g., industrial funds) for an unspecified minor military construction project.

b. Construction projects, regardless of cost, to meet mobilization requirements when no, or limited, peacetime application exists.

c. Construction projects, regardless of cost, for a tenant activity, military support function, or other activity as may be designated by the ASD(C) even though such activity and/or function utilizes the industrial fund financial system.

d. Real or personal property repairs costing over the amount specified in reference (e) as the maximum amount for a minor construction project.

MANAGEMENT AND ADMINISTRATION OF INDUSTRIAL FUNDS

A. MANAGEMENT

Under the authority and direction of the Secretary of Defense, administration and management of industrial funds within the Department of Defense as prescribed by this Directive shall be delegated to the Secretaries of the Military Departments and the Directors of the Defense Agencies responsible for the activities so financed. A management agency or activity group command shall be designated responsible for effective management of each industrial fund activity. Authority to incur obligations and costs for each industrial fund activity shall be vested in the local management under the direction and supervision of the agency having direct command and management control.

B. ACTIVITY FINANCING

Industrial funds shall be used to finance the operations of industrial- and commercial-type activities. When the major operations at an activity are financed under the industrial fund, all operations under the activity commander may be financed with the industrial fund. Transfers of headquarters-type functions or other activities that significantly increase amounts included in overhead distributions to the existing industrial or commercial functions shall not be approved.

C. AUTHORIZED CUSTOMERS

Customers of an industrial fund activity may be:

1. Any DoD element except those directly involved with management and operation of the industrial fund activity.
2. Non-DoD Federal Government Agencies.
3. Private parties and concerns when authorized by law including foreign governments, State and local governments, and others not officially representing the Federal Government.
4. Those U.S. manufacturers, assemblers, or developers authorized by Section 2208(i) of Title 10, U.S.C. (reference (b)) and implemented by DoD Directive 4175.1 (reference (f)).

D. BUDGETARY CONTROLS

Operations of each industrial fund activity shall be controlled by a budget developed on the basis of the following:

1. Estimated resources required to perform approved workloads and programs (that is, orders on hand or anticipated).
2. Inventory requirements.
3. Capital asset requirements.

## MANAGEMENT AND ADMINISTRATION OF INDUSTRIAL FUNDS, continued

### 4. Requirements for nonmission and tenant support.

These budgetary controls shall be designed to prevent incurring costs in excess of the amounts necessary to provide goods and services to ordering activities, the accumulation of excess inventories of stock, and the incurring of liabilities in excess of payment capability.

### E. RESPONSIBILITY FOR COSTS

The management of each activity shall be held responsible for the control of performance costs in line with customers' orders and approved price schedules. The customers shall be responsible for budgeting and budgetary control for the cost of end-products and services ordered from an industrial fund activity. The appropriation, apportionment, and funding process provides higher-level control of the cost of material, work, and services ordered by customers of industrial fund activities.

### F. UNDERUTILIZED PLANT RETENTION

The DoD Components having management responsibility for industrial fund activities shall provide appropriated funds for the costs of maintaining unutilized and underutilized plants and facilities being held for mobilization purposes at industrial fund activities. Retention of facilities in excess of those necessary for current or planned workload shall be in accordance with DoD Directive 4275.5 (reference (g)). The acquisition, retention, or disposal of unutilized and underutilized plants and facilities at transportation activities must be approved by the Assistant Secretary of Defense (Production and Logistics) (ASD(P&L)).